

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

UNAUDITED THIRD QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 30 APRIL 2017

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 30 April 2017.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE QUARTER ENDED 30 APRIL 2017

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (30/04/2017) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (30/04/2016) RM'000	CURRENT YEAR TO DATE (30/04/2017) RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE (30/04/2016) RM'000
Revenue	84,995	70,768	248,222	211,206
Other items of income				
Interest income	574	830	1,876	1,822
Dividend income	40	18	76	76
Other income	764	203	1,059	865
Items of expense				
Raw materials and consumables used	(7,935)	(8,374)	(25,052)	(25,449)
Changes in work-in-progress and finished goods	(25)	1,344	616	1,697
Employee benefits expense*	(27,480)	(24,853)	(84,397)	(72,234)
Depreciation of property, plant and equipment	(17,597)	(13,456)	(48,265)	(41,167)
Finance costs	(551)	(676)	(1,545)	(2,368)
Other expenses*	(20,534)	(16,584)	(57,565)	(47,580)
Profit before tax	12,251	9,220	35,025	26,868
Income tax expense	(1,647)	(1,647)	(4,434)	(4,230)
Profit net of tax	10,604	7,573	30,591	22,638
Other comprehensive income:				
Foreign currency translation	(482)	(2,254)	1,808	(1,312)
Other comprehensive income for the period, net of tax	(482)	(2,254)	1,808	(1,312)
Total comprehensive income for the period	10,122	5,319	32,399	21,326
Profit attributable to:				
Owners of the Company	10,604	7,573	30,591	22,638
Total comprehensive income attributable to:				
Owners of the Company	10,122	5,319	32,399	21,326
Earnings per share attributable to owners of the Company (sen per share):				
- Basic	24.7	17.6	71.1	52.6

* Comparative figures have been restated to conform with current year's presentation.

The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2016 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 APRIL 2017

	AS AT END OF CURRENT QUARTER 30/04/2017	AS AT PRECEDING FINANCIAL YEAR END 31/07/2016
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	210,378	169,770
Deferred tax assets	602	602
	<u>210,980</u>	<u>170,372</u>
Current assets		
Inventories	8,427	8,527
Trade and other receivables	84,168	70,421
Prepayments	6,654	5,452
Investment securities	6,097	4,184
Cash and short-term deposits	93,945	112,748
	<u>199,291</u>	<u>201,332</u>
Total assets	<u>410,271</u>	<u>371,704</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,015
Other reserves	19,208	18,063
Retained earnings	254,941	225,640
Total equity	<u>317,827</u>	<u>286,718</u>
Non-current liabilities		
Obligations under finance leases	1,383	1,874
Term loans	14,239	8,000
	<u>15,622</u>	<u>9,874</u>
Current liabilities		
Trade and other payables	47,748	45,230
Obligations under finance leases	2,424	1,483
Term loans	24,529	28,012
Income tax payable	2,121	387
	<u>76,822</u>	<u>75,112</u>
Total liabilities	<u>92,444</u>	<u>84,986</u>
Total equity and liabilities	<u>410,271</u>	<u>371,704</u>
Net assets per share attributable to owners of the Company (RM)	<u>7.39</u>	<u>6.67</u>

The condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 July 2016 and the accompanying explanatory notes attached to the interim financial statements.

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 APRIL 2017**

FY2017	< ----- Attributable to owners of the Company ----- >						Total equity
	< ----- Non-distributable ----- >					Distributable	
	Share capital	Share premium	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 August 2016	43,015	663	10,531	4,629	2,240	225,640	286,718
Total comprehensive income	-	-	1,808	-	-	30,591	32,399
Transaction with owners							
Upon abolition of par value*	663	(663)	-	-	-	-	-
Dividends	-	-	-	-	-	(1,290)	(1,290)
At 30 April 2017	43,678	-	12,339	4,629	2,240	254,941	317,827

FY2016	< ----- Attributable to owners of the Company ----- >						Total equity
	< ----- Non-distributable ----- >					Distributable	
	Share capital	Share premium	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 August 2015	43,015	663	11,736	3,879	2,240	198,933	260,466
Total comprehensive income	-	-	(1,312)	-	-	22,638	21,326
Transaction with owners							
Transfer to statutory reserve fund	-	-	-	750	-	(750)	-
Dividends	-	-	-	-	-	(1,290)	(1,290)
At 30 April 2016	43,015	663	10,424	4,629	2,240	219,531	280,502

* On 31 January 2017, in accordance with the Companies Act 2016, the concepts of "par value" and "authorised capital" were abolished and on that date, the shares of the Company ceased to have a par value. Consequently, the amounts standing in the share premium had become part of the Company's share capital.

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 July 2016 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 APRIL 2017

	Current year to date 30/04/2017	Preceding year corresponding year to date 30/04/2016
	RM'000	RM'000
OPERATING ACTIVITIES		
Profit before tax	35,025	26,868
Adjustments for:		
Depreciation of property, plant and equipment	48,265	41,167
Plant and equipment written off	5	27
Gain on disposal of property, plant and equipment	(236)	(96)
(Write-back)/write-down of inventories	(104)	247
Gain on disposal of investment securities held for trading	(47)	-
Net fair value gain on investment securities held for trading	(437)	(136)
Unrealised exchange (gain)/loss	(8)	758
Dividend income	(76)	(76)
Interest income	(1,876)	(1,822)
Finance costs	1,545	2,368
Operating cash flows before working capital changes	82,056	69,305
Decrease in inventories	204	32
Increase in prepayments, trade and other receivables	(14,941)	(5,123)
Decrease in trade and other payables	(2,495)	(2,348)
Cash flows generated from operations	64,824	61,866
Income taxes paid	(2,701)	(1,652)
Interest paid	(1,545)	(2,368)
Interest received	1,876	1,822
Net cash flows generated from operating activities	62,454	59,668
INVESTING ACTIVITIES		
Short-term deposits with maturity more than 3 months	(6,000)	-
Purchase of investment securities	(2,315)	-
Proceeds from disposal of investment securities	886	-
Dividend income	76	76
Purchase of property, plant and equipment	(81,265)	(13,961)
Proceeds from disposal of property, plant and equipment	757	96
Net cash flows used in investing activities	(87,861)	(13,789)
FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(1,645)	(962)
Repayment of term loans	(22,869)	(31,215)
Proceeds from term loans	25,625	3,067
Dividend paid on ordinary shares	(1,290)	(1,290)
Net cash flows used in financing activities	(179)	(30,400)
Net (decrease)/increase in cash and cash equivalents	(25,586)	15,479
Effects of exchange rate changes	783	(1,098)
Cash and cash equivalents at beginning of year	112,748	93,924
Cash and cash equivalents at end of the period	87,945	108,305

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Cash and cash equivalents as at 30 April 2017 comprised of the following:

	Current year to date 30/04/2017	Preceding year corresponding year to date 30/04/2016
	RM'000	RM'000
Cash at banks	30,640	24,315
Deposits with licensed banks	63,305	83,990
Cash and short-term deposits	93,945	108,305
Less: Short-term deposits with maturity more than three months	(6,000)	-
Cash and cash equivalents	87,945	108,305

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2016 and the accompanying explanatory notes attached to the interim financial statements.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134: “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board, International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” and paragraph 9.22 and Part A of Appendix 9B of the Bursa Malaysia Securities Berhad’s Main Market Listing Requirements. The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 July 2016. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 July 2016.

2. Significant accounting policies

The significant accounting policies and methods of computation adopted by the Group in the interim financial statements are consistent with those of the audited financial statements for the year ended 31 July 2016.

In the current financial period, the Group had adopted all the new/revised standards and interpretations that are effective for annual periods beginning on or after 1 August 2016. The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Group.

3. Audit report of preceding annual financial statements

The audit report of the Group’s most recent audited financial statements for the year ended 31 July 2016 was not qualified.

4. Seasonality or cyclicity of operations

There was no material seasonal or cyclical fluctuation in the operations of the Group.

5. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the reporting period.

6. Changes in estimates of amounts reported in prior interim periods of the current financial year or in prior financial years

There were no changes in estimates of amounts reported in prior financial years.

7. Issues, repurchases, and repayments of debt and equity securities

There were no issues, repurchases and repayments of debt and equity securities for the current financial year to date.

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8. Dividends paid

A final tax exempt dividend of 3 sen per ordinary share, amounting to RM1,290,000, in respect of the previous financial year ended 31 July 2016, was paid on 26 January 2017.

9. Events not reflected in the financial statements

There were no material subsequent events to be disclosed as at the date of this report.

10. Changes in the composition of the Group

There were no changes in the composition of the Group for the financial year to date.

11. Acquisition or disposal of items of property, plant and equipment

During the reporting period, the Group acquired plant and equipment amounting to RM88,373,000, and disposed (including write-off) plant and equipment of net book value amounting to RM526,000.

12. Significant related party transactions

	<u>Current year to date</u> <u>30/04/2017</u> RM'000	<u>Preceding year corresponding year to date</u> <u>30/04/2016</u> RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries:		
Management fees charged by holding company	6,572	4,872
Dividends paid to holding company	625	625
Rendering of services to related companies	25	-
Purchases of equipment and consumables from related companies	1,537	655
Receiving of services from related companies	38	21

The Directors are of the opinion that the above transactions were in the normal course of business and at terms mutually agreed between the companies.

13. Significant commitments for purchase of property, plant and equipment

Commitments for purchase of property, plant and equipment amounted to RM43,996,000 as at 30 April 2017.

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14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	30/04/2017	30/04/2016	30/04/2017	30/04/2016
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	-	-	-	247
Plant and equipment written off	-	-	5	27
Net foreign exchange loss	239	794	32	-
And crediting:				
Write-back of inventories	-	36	104	-
Gain on disposal of property, plant and equipment	-	31	236	96
Gain on disposal on investment securities held for trading	-	-	47	-
Net fair value gain on investment securities held for trading	543	75	437	136
Net foreign exchange gain	-	-	-	166

There was no gain or loss arising from derivatives, disposal of unquoted investments and exceptional items.

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15. Detailed analysis of Group performance

Analysis of the performance for the current quarter

The Group's revenue increased by RM14.2 million or 20%, from RM70.8 million in the preceding year's third quarter to RM85.0 million for the current quarter ended 30 April 2017 ("3QFY2017"), mainly due to higher demand for burn-in and test services.

Employee benefits expense increased by RM2.6 million or 11%, mainly due to adjustments of wage rates and higher staff compensation to support the increased revenue.

Depreciation was higher by RM4.1 million or 31%, as additional machinery and test equipment were installed during the financial period.

Other expenses were higher by RM4.0 million or 24%, mainly due to higher expenses on repair and maintenance by RM2.3 million and management fees of RM1.4 million.

Consequently, the Group's profit before tax improved by RM3.0 million or 33%, from RM9.2 million to RM12.3 million in 3QFY2017.

Analysis of the performance for the current financial year-to-date

The Group's revenue increased by RM37.0 million or 18%, from RM211.2 million in the preceding year's corresponding period to RM248.2 million for the current financial period ended 30 April 2017, as a result of higher demand for burn-in and test services.

Employee benefits expense increased by RM12.2 million or 17%, mainly due to adjustments of wage rates and higher staff compensation to support the increased revenue, improved staff welfare, training and skills upgrading to raise productivity and production efficiency.

Depreciation was higher by RM7.1 million or 17%, as additional machinery and test equipment were purchased during the financial period.

Other expenses were higher by RM10.0 million or 21%, mainly due to higher expenses on repair and maintenance by RM5.6 million and utilities by RM1.7 million to support the increased revenue, and higher professional fees by RM0.7 million.

Consequently, the Group's profit before tax improved by RM8.2 million or 30%, from RM26.9 million to RM35.0 million in the reporting period under review.

16. Material change in the profit before taxation compared to the results of the preceding quarter

The Group achieved profit before tax of RM12.3 million for 3QFY2017, comparable to RM11.6 million in the preceding quarter ended 31 January 2017.

17. Prospects

The world-wide semiconductor revenue is estimated to reach USD386 billion in 2017. This represents an increase of 12.4% from 2016, and an upside adjustment from previous forecast of 7.2% because of improvements in the semiconductor memory segment.

The global economy is also gaining momentum and growth is expected to rise from 3.1% in 2016, to 3.5% in 2017, up from previous forecast of 3.4%.

On the back of these positive developments, the Group expects a sustainable performance.

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18. Profit forecast/profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 30/04/2017 RM'000	Preceding year corresponding quarter 30/04/2016 RM'000	Current year to date 30/04/2017 RM'000	Preceding year corresponding quarter 30/04/2016 RM'000
Current income tax				
- Malaysian income tax	1,294	1,647	4,318	4,230
- Under provision in prior years	353	-	116	-
	<u>1,647</u>	<u>1,647</u>	<u>4,434</u>	<u>4,230</u>

The effective tax rate was lower than the statutory tax rate, mainly due to the availability of certain tax benefits.

20. Status of uncompleted corporate proposals

There was no corporate proposal announced and not completed as at the date of this report.

21. Group borrowings and debt securities

	As at 30/04/2017 RM'000	As at 31/07/2016 RM'000
(a) Obligations under finance leases - secured	3,807	3,357
Term loans *	<u>38,768</u>	<u>36,012</u>
	<u>42,575</u>	<u>39,369</u>
(b) Repayable within 12 months	26,953	29,495
Repayable after 12 months	<u>15,622</u>	<u>9,874</u>
	<u>42,575</u>	<u>39,369</u>
(c) Total loans and borrowings denominated in:		
Renminbi	3,625	-
Ringgit Malaysia	<u>38,950</u>	<u>39,369</u>
	<u>42,575</u>	<u>39,369</u>

* Included in the term loans was secured loans of RM3,625,000 (31/07/2016: Nil).

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22. Material litigation

There was no material litigation as at the date of this announcement.

23. Dividend

There was no dividend declared for the quarter under review.

24. Earnings per share

Basic earnings per ordinary share

The calculation of basic earnings per share for the period was based on the profit attributable to owners of the Company of RM10,604,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting period.

25. Realised and unrealised profits

	As at end of current quarter 30/04/2017	As at preceding financial year end 31/07/2016
	RM'000	RM'000
- Realised	288,024	260,337
- Unrealised	2,626	(195)
Total retained profits of the Company and its subsidiaries	290,650	260,142
Consolidation adjustments	(35,709)	(34,502)
Total group retained profits as per consolidated accounts	254,941	225,640

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 1 June 2017